

To cite this document: Hamed Tofangaz, (2015) "Rethinking terrorist financing; where does all this lead?", Journal of Money Laundering Control, Vol. 18 Issue: 1, pp.112-130, <https://doi.org/10.1108/JMLC-12-2013-0049>

## **Rethinking terrorist financing; where does all this lead?**

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### **Abstract**

**Purpose** - The approach taken by international laws and standards to impede terrorism treats terrorist financing as another form (predicate crime) of money laundering. This approach justifies the integration of terrorist financing into money laundering counter-measures with an exaggerated focus on two inaccurate assumptions: terrorists' involvement in criminal activities (especially organized crime), and utilising money laundering tools by terrorists to move their funds. Regarding the nature and characteristics of terrorist financing, this paper aims to examine whether from a factual standpoint, it is sufficiently reasonable to address the suppression of terrorist financing by analogy with money laundering.

**Design/ Methodology/ Approach** – The process of terrorist financing will be examined in regard to the funding requirements of terrorists and the methods and tools that terrorists use to raise, move and store their funds. The process of money laundering will be compared with terrorist financing. The role of money laundering in terrorist financing will be discussed. In the core part of this paper, the assumptions justifying the inclusion of anti-money laundering measures to terrorist financing will be challenged.

**Findings** – What terrorist financing and money laundering share in common is money. However, there are fundamental differences between them with regard to the sources of funds and the direction of financial flows. None of the elements \_‘accumulation’ and ‘legitimization’\_ involved in money laundering are necessarily engaged in the process of terrorist financing. This questions the authenticity of the assumptions which underlie the adopted approach. It also requires further investigation on the effectiveness of the integrated counter-terrorist regime, which will not be covered by this paper.

**Originality/ value** – This paper provides a comprehensive introduction for those dealing with the greater question of whether the terrorist financing can and should be tackled by anti-money laundering measures.

**Keyword** Terrorist financing, money laundering, terrorism

**Paper type** Research paper

## 1. Introduction

Although terrorism is not a new phenomenon (Chaliand and Blin, 2007), recently, there appears to be widespread concern over the “intensity and urgency” of attacks on civilians or civilian property carried out with the purpose of threatening ordinary people or governments or international organizations into acting in a particular way or desisting from action (Calmy-Rey, 2009, p. vii). As a result, the necessity of having adequate counter-measures and international cooperation are regularly reminded.

Current concerns over terrorist threats have directed international attention to financial support for terrorism since financial and material resources have been identified as the lifeblood of terrorist operations (Bush, 2001). It has been argued that drying out the financial flow from terrorist financiers to terrorist groups or from terrorist headquarters to terrorist cells can largely hamper terrorist capacities to attack (Krieger and Meierrieks, 2011, p.2).

However, from the beginning, there has been an argument about how the financing of terrorism needs to be treated (the FATF, 2000-2001, p.28). On the one hand, it is argued that due to the link and nexus between terrorism and organized crime, terrorist financing can be adequately targeted under already existing measures established to prevent the financial aspect of criminal (organized) activities. In other words, it is assumed that as terrorist groups are involved in criminal activities to finance their operations, the same laundering methods are used by both terrorism and organized crime to launder their funds. According to this assumption, even if terrorist funds are derived from legal sources, terrorists “process these funds- that is, move them from the source to where they will be used- in much the same way that non-terrorist criminal groups launder funds” (the FATF 2002-2003, p.3). This assumption underlies the approach taken by international laws and standards to impede financial flows towards or from terrorist groups. The most prominent example is the Financial Action Task Force on Money Laundering (the FATF) Recommendations which requires states to criminalize terrorist financing as a predicate crime to money laundering (the FATF, 2012, Recommendation 5).

On the other hand, some are of the opinion that terrorist financing constitutes a distinct category of crime; accordingly, they question the capability of anti-money laundering measures in the fight against terrorism (the FATF, 2000-2001, p. 20). It is argued that there are fundamental differences between money laundering and terrorist financing with regard to the sources of funds and the “direction of financial flows” (Krieger and Meierrieks, 2011, p. 2). In relation to the former, while the money involved in organized crime is derived from criminal activities, terrorism can be financed by both legal and illegal sources. With respect to the latter, while the purpose in money laundering is to conceal the criminal origin of money so that it appears legitimate, the aim in terrorist financing is distributing the funds whose sources and transfer are often legitimate.

By considering the nature and characteristics of terrorist financing, this chapter will examine whether it is sufficiently justifiable to address the suppression of terrorist financing based on analogy with money laundering and its predicate crimes.[1] To do so, in the Part 2, the process of terrorist financing will be examined in regard to the funding requirements of terrorists and the methods and tools that terrorists use to raise, move and store their funds. Part 3 will address terrorism typologies on the basis of the strategies that terrorists apply to finance their activities. In part 4, the process of money laundering will be compared with terrorist financing and the role and importance of money laundering in terrorist financing will be discussed. In the core part of this chapter, those assumptions justifying the inclusion of

anti-money laundering measures to terrorist financing will be challenged, to conclude that while terrorist funds can be processed by the same tools used by launderers, none of those elements involved in money laundering by organized crime are necessarily engaged in the process of terrorist financing.

## **2. Nature and characteristics of terrorist financing**

### **2.1 Various needs for financing terrorism**

The first step in identifying the flow of funds to terrorists is to understand the funding requirements of terrorists. Terrorists' requirements can be explained with regard to their activities or the nature of their needs.

In terms of terrorist activities, terrorists' financial needs can be divided into two categories. Terrorists need "operational resources" associated with conducting specific terrorist attacks; these include the costs of attacks, the salaries of individual operatives, communications, training, travel and logistics. Terrorists, in the case of a large group, also require resources for their "broad organizational requirements" to create, maintain and develop a terrorism infrastructure (the FATF, 2008, p.7). Evidence shows that while the current operational costs of terrorist attacks are often very low relative to the damage they cause (*ibid*), organizational costs are beyond the direct costs.

Regarding the nature of funding requirements, terrorists' resources are classified into three categories: money and financial instruments, tangible and intangible resources (Vittori, 2011, p.13). "Money" and other negotiable and financial instruments are the most important resources required by terrorists. Terrorists need money "to buy weapons, bribe local officials, pay operatives, write propaganda, provide a social network that builds a popular base and otherwise fill a myriad of purposes" (Byman, 2001, p.87). It is also a convenient means of storing wealth.

Tangible resources are also needed by terrorists. At the very least, terrorists need four types of tangible goods to carry out their operations (Vittori, 2011, p.15). "Life's necessities" including food, accommodation, clothing, travel cost and so on are the basic needs of members of terrorist organizations. Terrorist groups also need members and "personnel" to carry out their activities. In addition, terrorists need to have an effective communication system such as access to media, internet, cell phones and so on to communicate with each other, disseminate their information, justify and advertise their ideology and send their messages to their victims (Hoffman and Inc, 2006). Tangible goods also include "operational resources" which are required to commit violence (Vittori, 2011, p.18). They range from simple knives to very high-tech weapons, depending on the complexity of terrorist operations and groups.

Terrorists also require "intangible instruments". "Operational space" or sanctuary is the time and space needed to plan, train for, and execute terrorist attacks (Cargin, Daly and Corporation, 2004, p.45). A sanctuary can be a small house at the centre of a big city or a big camp or farm far from any prying eyes. "Operational security" resources are also needed to enable terrorists to keep security forces from discovering their location, plans and the people involved in terrorist activities (*ibid*, p.47). Furthermore, terrorists need "intelligence" to plan how, where and when they execute their terrorist activities. How much information is needed depends on the scope and complexity of operations (*ibid*, p.50). Terrorist groups also need "publicity" to promote their ideology, justify their violent actions and encourage people to

join them (Vittori, 2011, 20-1). Without effective “leadership”, all of the resources might be useless; so, “command and control” mechanisms help terrorists to plan, coordinate and execute their attacks (Cargin *et al.*, 2004, p. 40).

## **2.2 The sources of terrorist financing**

Terrorists meet their funding needs in different ways, depending on the type and purposes of groups, the inherent capabilities of groups, the “opportunities at hand” and the types of resources needed (Passas, 2007, p.32). Also, terrorists can be self-financing or sponsored by states or private actors, individuals, companies and organizations (Bantekas and Nush, 2007, p.220).[2] In either situation, funds can be derived from legal or illegal sources, or both.

### **2.2.1 Illegal sources**

It is believed that because of the dramatic decrease of state-sponsored terrorism, terrorists have turned to alternative sources of funding, including criminal activities such as arms trafficking, extortion, credit card fraud, smuggling, robbery, cheque fraud, racketeering, kidnap-for-ransom and more importantly drug trafficking (the FATF, 2008, p. 15).

Drug trafficking is the most important and attractive source of funds for large terrorist groups (*Ibid*). This phenomenon, called “narcoterrorism”, involves terrorists groups cultivating, refining and distributing narcotic across the world (Vittori, 2011, p.36). This trend has been apparent since the 1990s. It usually takes place in countries where such groups control territories (Bantekas, 2003, p.317). Evidence shows that, for example, the Revolutionary Armed Forces of Colombia, the Peruvian Shining Path, Taliban, Al-Qaida and Islamic Movement of Uzbekistan use drug trafficking as a source of terrorist funding (Berry, 2002, p.165). A 2007 United Nations report declared that the total value of the export of drugs from Afghanistan stood at around 4 billion USD divided up among insurgents, warlords and drug traffickers (Vittori, 2011, p.36).

### **2.2.2 Legal sources**

Terrorism may be financed with considerable support and funding from and through legal sources, including donations and investment in legitimate businesses.

#### **2.2.2.1 Donations and the role of non-profit organizations**

Donations, which may come from individual donors or from charities, are a common means of financing terrorism (*ibid*, p. 38). An individual donor can be a wealthy person who directly donates huge sums of money to a terrorist group.[3] Donations can be also solicited from those who donate as part of their religious obligations [4] or from diasporas who seek self-determination.[5]

Donations are usually collected through non-profit organizations such as charities. Enjoying public trust, having a global presence that provides an opportunity to operate internationally and being subject to lighter regulatory requirements than other financial institution are the characteristics of these organizations which make them attractive to terrorists (the FATF, 2008, p.11).

Charities can be abused in different ways. Terrorists may take over an entire charity and use it as a front organisation. In such a case, called “sham charity”, terrorists use the charity as a vehicle to perpetrate fraud against donors in order to raise and disguise funds for terrorism

(*ibid*, p.12). Terrorists may also infiltrate an established charity by taking over some branches of a large charity and diverting some portion of the donations collected for humanitarian purposes to terrorists. For instance, in 2003, the Chief Executive Officer of the Benevolence International Foundation, an Illinois-based charity in the US, was found guilty of transferring US\$ 315,000 of charitable donations to terrorist groups (*ibid*).

Non-governmental organizations can also provide facilities for terrorists, such as a “shipping address, housing, employment, identity cards, a recognized reason to be at a particular location” (Vittori, 2011, p.40). For example, Al-Qaeda members confessed that they received identification cards from the Kenya-based Mercy International Relief Organisation as they plotted the 1998 embassy bombings (Stern, 2003, p.273).

In addition, the role of non-profit organizations, companies and “sympathetic financial institutions” in transferring funds or logistical resources to terrorists is considerably important. For example, they can use their bank accounts to collect funds or transfer them to any destination where they are required (the FATF, 2003-2004, p. 9).

#### **2.2.2.2 Investment in legitimate business**

Legal businesses are considered as a complex and “versatile tool” for the financing of terrorism (Koh, 2006, p. 22). In its simplest form, terrorists can establish a local business and use its income for their purposes. They can also invest in stocks, banks, real estate, construction firms, tanneries, bookstores, honey shops, trade businesses, restaurants and so on. Evidence shows that large terrorist groups like Al-Qaeda have invested in various businesses such as wood and paper industries in Norway, hospital equipment in Sweden, real estates in London, and newspaper ink and honey in Middle East (Jacquard, 2002, p. 128).

Like non-profit organisations, such businesses and front companies can provide other facilities such as access to bank accounts and postal addresses. Furthermore, they provide cover for the purchase and acquisition of explosives and chemicals needed for terrorist attacks (Reeve, 1999, p. 178).

Terrorism, in some cases, can be financed by small amounts of funds, involving family or other non-criminal sources (the FATF, 2008, p. 14). The amount of money to launch small attacks can be acquired by individual terrorists or their supporters “using savings, access to credit or the proceeds of businesses under their control” (*ibid*). An example of such financing is the 7 July 2005 attacks on the London transport system. The official report in this regard stated that “there is no evidence of external sources of income. Our best estimates are that the overall cost is less than GBP 8000. The bombs were homemade, that the ingredients used were all readily commercially available and not particularly expensive” (*ibid*).

To sum up, it should be noted that there is no accurate data or evidence as to whether terrorists rely more on one of these sources than another (Koh, 2006, p. 24). Resort to any of these sources depends on the type, size and purposes of groups, opportunities at hand and types of resources needed. For example, Al-Qaeda has at least five financial resources: investments and inheritances of Osama Bin Laden, funding from wealthy Arab supporters, contribution through charities, income from investments in legal businesses and criminal activities (*ibid*). Table I categorizes the sources of terrorist financing, mentioned above, in regard to their origin.

Origin of sources	Self-financed sources	Sponsored sources
Lawful sources	State Sponsorship	Investment in legal businesses
	Individual and institutional sponsorship	Internal sources
	Fundraising initiatives	Wealthy donors
Unlawful sources	Criminal activities	

Table I: The lawful and unlawful financial sources of terrorists.

## 2.3 Methods and means of moving and storing terrorist funds

The literature on terrorist financing highlights the great “adaptability and opportunism” that terrorists or their supporters exploit to move and store their funds (Williams, 2005, p.2). In general, there are three main known methods by which terrorist funds are moved: formal and informal financial systems, physical movement of funds and value, and the international trade system (the FATF, p. 21).

### 2.3.1 Financial System

The formal financial system is an attractive channel for the financing of terrorism due to the provision of services and products by which terrorists can move their funds, and due to the “speed and ease” with which funds can be transferred “efficiently and effectively between and within jurisdictions” (Runder, 2010, p. 706). Money and value operations through formal financial systems enable terrorist financiers or terrorists to make an amount of money available to terrorists at another financial institution. The 9/11 Commission Report made clear that “wire or bank to bank transfers” were one of the main tools that Al-Qaeda used to fund the hijackers in the US (the 9/11 Commission Report, 2004, pp. 245, 254).

Formal financial institutions can also provide cover for terrorists to conduct transactions or conceal the origin of their funds. In the case of al Qaeda, it was discovered that Usama Bin Laden, while he lived in Sudan, opened different accounts under fake names in different countries, which guaranteed his privacy (Kiser, 2005, p.86).

In addition to formal financial systems, informal value transfer systems (IVTS) are deployed for financing terrorism. An informal method of money and value transfers refers to a trust-based mechanism through which money is ensured to be transferred to another geographic location by “using a series of informal, and often unlicensed, money exchanges” (Vittori, 2011, p. 45). In this mechanism, there may be no actual movement of cash; instead, value is transferred between two locations. Such financial arrangements, which are very well known in South Asia, the Middle East and parts of Africa, are known by different names: for example *hundi* in India, *fei chi'ien* in China, *phoe kuah* in Thailand and *hawala* in Muslim countries (Kiser, 2005, p. 90).

Informal methods are attractive to criminals, including terrorists, for their convenience, level of anonymity and rapidity (the FATF, 2008, p. 24). Also, it is a reliable means to transfer money especially in countries with poor, corrupt or nonexistent banking systems (Vittori, 2011, p. 46). Furthermore, such a system is subject to generally less strict regulatory control. It is reported that Hamas, the Jemaah Islamiya organization, the Liberation Tigers of Tamil Eelam, as terrorist groups, receive funds through *hawala* (Passas, 2007, p. 31).

### **2.3.2 Physical movement of funds**

Terrorists may also use the traditional money laundering method of smuggling cash. Cash smuggling is attractive because smuggled money is completely fungible, anonymous, and more importantly, easy to convert into any other resources needed. Cases highlight that smuggled money can be transported either to where terrorist operations are to take place, or where the cash can be deposited into financial systems with less risk (Kiser, 2005, p. 91).

Due to some of the disadvantages of cash smuggling, such as difficulties in concealing large quantities of cash or the danger of being detected or stolen, terrorists and their supporters may use precious metals and gems such as gold, platinum and diamonds, antiques or any other expensive items to move and store terrorist funds. While maintaining their value and liquidity, they are easy to conceal and untraceable (Koh, 2006, p. 30). These items can be converted into cash whenever needed. Al Qaeda and Hezbollah are believed to have been active in this field (Farah, 2004a). Also, it has been reported that donations to the Taliban and Al-Qaeda from Saudi wealthy donors were made in gold (Farah, 2004b).

### **2.3.3 Trade system**

The international trade system provides an opportunity for perpetrators to transfer value and goods through legitimate trade flows. This is the area in which enormous wealth can cross borders without raising suspicion “as the paperwork and shipments may look completely legitimate to outside inspection” (Passas, 2007, p. 31). Over-and under-invoicing practices are commonly used by launderers to transfer value across borders. It is possible, although it has not been confirmed (*ibid*), that terrorists or their supporters also use such methods to finance terrorism. For example, by selling and shipping a commodity at a lower rate than the actual value, a seller, as a terrorist financier, can provide funds for the buyer who sells the products at a higher price and keeps the difference for terrorist purposes (*ibid*).

## **3. Financing of terrorism and terrorism typologies**

There are many different categories of terrorism. These categorises help to differentiate terrorist groups according to specific criteria related to a specific field. On the basis of the strategies that terrorists use to finance their activities, terrorism can be divided into seven groups: state sponsored, state sponsoring, shell state, franchise, bundled support, transnational corporation, and lone wolf (Vittori, 2011, p. 7.).

A state-sponsored group receives substantial supports from a state which seeks particular political or ideological objectives. The state may find numerous ways to support terrorists such as supplying them with false documentation and passports, allowing them to travel safely within the nation or to other countries and providing them with sanctuary and weapons. The autonomy of groups in this category depends on how integrated they are into a particular state’s command and control (*ibid*). Terrorists may receive support from states as long as that aid does not disturb their independence. However, state sponsors may place

requirements on groups for receipt of support in order to guide them into specific direction. In such a case, in what are called “state-directed groups” (Deatherage, 2008, p.31), the groups exist as long as they are worthwhile for the sponsor states.

A state sponsoring terrorist group is one that is capable of providing facilities for a state sponsor in return for receiving support from that state (Vittori, 2011, p. 8). For example, the government of Sudan let Al-Qaeda have training camps in Sudan in exchange for money and building infrastructure (Byman, 2005, p. 187). It is believed that terrorist-sponsoring groups have to have achieved a high level of capability to attract state sponsor attention (Vittori, 2011, p. 8).

In the case of “shell states”, terrorists take control of a geographical area and exploit it for sanctuary and their needs (Napoleoni, 2005, p. 65). An area can be as small as a few neighbourhoods or as large as a huge area in a country. The example of this type of terrorism is narcoterrorism, explained above.

In the franchise category, terrorist groups receive a large portion of their support from one source, but not limited only to that source; so the groups remain independent (Vittori, 2011, p. 8). In this case, if the sponsor stop supporting, although the groups may weaken, but they may not be doomed to extinction. For example, it is claimed that Hamas and Hezbollah are franchisees of Iran, from whom they receive much of their support,[6] but they also maintain their own network of charities, front companies and criminal networks to sustain their activities (Levitt, 2007, p.134).

In the “bundled support” category, terrorists do not rely on one or few sponsors; instead, they receive a number of tangible and intangible resources from numerous non-state contributors (Vittori, 2011, p. 114). The phenomenon of diaspora support, in which terrorists receive support from dispersed donors of the same ethnicity or nationality, is the prominent example of this category. Many small contributions from different contributors give terrorist groups more autonomy than a state sponsored terrorist group. Nonetheless, they may not be supported when they fail to satisfy their sponsors (*ibid*).

In the transnational corporation model, extensively used to describe Al-Qaeda, terrorist groups act on a global scale without any specific national identification. These groups, utilizing globalization, are highly sophisticated and complex in resourcing, membership and geographical operations (Cronin, 2002-2003, p. 45). Groups within this model are experts at using formal and informal financial systems, front companies, charities, money laundering and other criminal activities. They also have a high level of autonomy as they have access to various financial resources.

Lone wolf terrorism is the example of terrorist groups which are not essentially involved in collective, organized activities (Spaaij, 2012, p. 15). Lone wolf terrorist groups are individuals or small groups which are identifiable by a particular ideology, and which carry out actions in support of their radical belief (Vittori, 2002, p. 7). Unlike other types, lone wolf terrorist groups are small in size with few financial requirements, and limited capabilities. They are self-contained, free to choose their targets and tactics. Terrorism in this form is very cheap; but the causes can be significant. It is claimed that there is a considerable trend which indicates the increasing frequency of lone wolf attacks by individuals with little or no connections to formal organizations (Michael, 2012, p. 1). Terrorist attacks in France in March 2012 (Nimmo, 2012,), in Norway in July 2012 (Spaaij, 2012, p.1) , in Germany in March 2011 (FoxNews, 2011) are recent examples of lone wolf terrorism.



#### 4. The role of money laundering in terrorist financing

Money laundering is internationally defined as the process of conversion or transfer, concealment or disguise, and possession or use of any income or property derived from illegal activities (hereinafter “predicate crimes”) (UN, 1988, Article 2 (h)). The origin of the term money laundering arose in the US in 1920s when mafia groups utilized launderettes to acquire a legitimate appearance for money generated from their criminal activities (Stessens, 2000, p. 82). [7] Later, with the explosion of drug trafficking in 1980s, money laundering became an important part of any serious offence enterprise, especially “organized crime” activities, from which huge profits are generated (Gilmore, 1999, p. 9). [8] The main purpose of money laundering operations is twofold: to hide the predicate (often organized) crimes from which the proceeds are obtained, and to guarantee that criminals can enjoy their proceeds by using or investing in the legal economy (Stessens, 2000, p.83 ).

To fulfil these goals, launderers use various and complex techniques to launder their proceeds. These techniques very briefly may include using financial institutions as a deposit-taking institutions, “non-bank financial institutions”, non financial institutions, or other informal methods such as the purchase of art treasures and jewellery, techniques of illegal money importation, techniques of smurfing or nominal partnerships, gambling, techniques of overpayment on tax accounts, techniques related to real estate, the buying of gift vouchers, assuring real estate credit, establishing fictitious business organisations, fictitious transactions, creating a cover company, techniques of over-or under-charge, methods of acquisition and selling of companies, acquisition of sports clubs, respectively player, gold purchase , barter trade systems and so on (Gilmore, 1999, p.30).

The involvement of these techniques in laundering is too complex to explain here. However, it has become common to illustrate the process of laundering, especially those involved with drug money, by utilising a three-stage framework (*ibid*, p. 29):

- 1- Placement stage: proceeds at the first step need to either enter a financial system or be used to buy an asset.
- 2- In the “layering stage” a launderer, through some financial transactions, tries to conceal and disguise the source of the money. This step can be done by breaking down the money to small amounts and transferring it to different financial institutions.
- 3- In the final stage, ‘integration’, the money is assimilated along with all other assets in the system in order to make the money appear as if it were obtained legally.

Regarding the nature of the crime, money laundering can be described as a “legitimation-oriented concept” (Koh, 2006, p.26) which contains the following features:

- The money involved in the process of money laundering is, in all cases, derived from illegal activities.
- Money laundering is a derivative crime or an output of predicate crimes.
- The main purpose in money laundering is to disguise the origin of proceeds in order for criminals to enjoy their ill-gotten gains (Stessens, 2000, p. 84).
- Money laundering takes place when principal crimes (predicate crimes) have already been committed. The necessity of laundering makes detecting criminals by chasing the proceeds of their illegal activities more possible.

However, in regard to financing terrorism, there is a different story. Terrorist financing can be divided into “a framework with three levels”: activities done to make and raise funds for terrorist purposes,[9] strategies used to move the funds whence they have been collected to

where they need to be held, and methods used to move funds to frontline terrorists (Vittori, 2011, p. 26). It seems that terrorist financing is a phenomenon which begins with fund raising and ends by distributing the funds to terrorist cells.

The emphasis, in such a case, is not on the legitimization and accumulation of funds, but making funds available to terrorist cells; so, terrorist funds do not inevitably need to go through those money laundering stages by which the proceeds of organized crime are processed. However, money laundering can be a part of terrorist financing process in some case, as illustrated in Diagram II.

Regarding the nature and characteristics of terrorist financing, terrorist funds can be processed under three scenarios:

**Scenario one:** when the funds have been derived from legal sources, nothing appears illegal except the future use of the money. The funds, in this case, can be transferred by non- criminal individuals or legal entities like charities and front companies, and through the legal financial system.

**Scenario two:** terrorists are involved with criminal activities in order to generate funds for their terrorist purposes. So, they may need to launder the proceeds of their crime if they wish to invest proceeds to produce regular revenue. If the funds come under scrutiny at this stage, there may be no connection with terrorist activities. Also, after having been laundered, the disguised the origin of money might not be identifiable because the connection between the funds and their illegal source has already been interrupted; in result, the funds have a legitimate appearance.

**Scenario three:** the proceeds of crime are directly (without being laundered) used by terrorist cells. In this case, terrorists do not need to launder the money, because the amount of money on the move can be small.

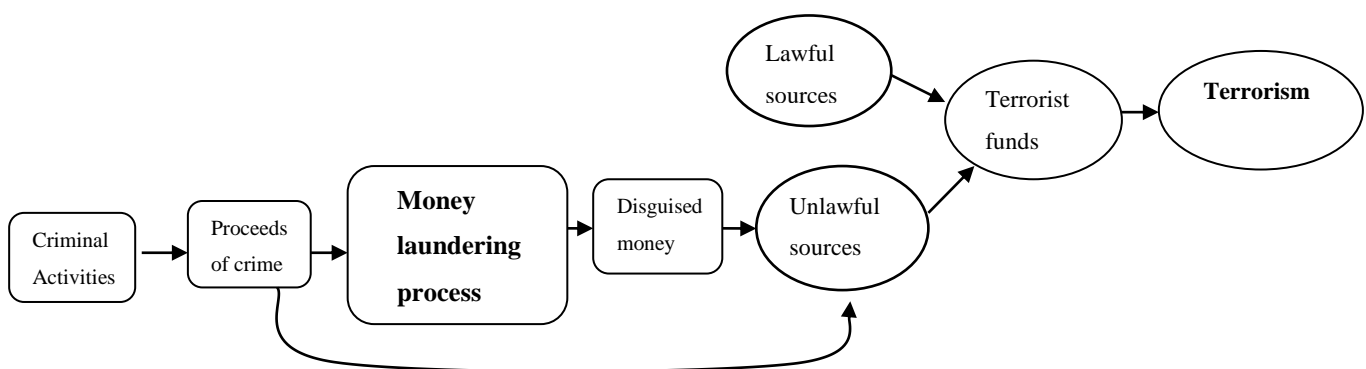


Diagram II. illustrates how terrorist financing can be processed (Tofangsaz, 2012, p.401).

In comparison with money laundering, the main characteristics of the terrorist financing process are:

- Unlike money laundering the subject matter of which is money of crime, in terrorist financing, “funds” is a matter of discussion, which means “assets of every kind, whether tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such assets, including, but not limited to, bank credits, travellers cheques, bank cheques, money orders, shares, securities, bonds, drafts, letters of credit” (UN, 1999, Article 1).
- Terrorist financing involves preparing funds for the commission of another crime. So, it is an input into terrorism, and preparatory in its nature.
- When terrorist financing occurs, the principal crime (terrorism) has not been committed or even attempted yet; so, the relationship between the funds and terrorist activities may or may not be identifiable.
- The purpose in terrorist financing is not accumulation, but distribution. In result, the amount of funds on the move may often be very small (Bantekas, 2003, p. 321).
- The attempt in terrorist financing is to hide the destination of the funds.

## **5. Discussion on the relationship of terrorist financing and money laundering**

There has been a continuing argument on whether the measures provided to counter money laundering are able to prevent and counteract terrorist financing. Those who support the integration of terrorist financing into anti-money laundering measures base their argument on two inaccurate assumptions: the link and nexus between terrorism and criminal activities (Napoleoni, 2003, p.25), and the involvement of terrorist financing in money laundering (the FATF, 2000-2001, p.28).

### **5.1 Terrorists’ involvement in criminal (organized) activities**

The first assumption, which emphasizes and exaggerates the involvement of terrorists in criminal (especially organized) activities as the main source of terrorist financing, considers terrorism as a crime which generates proceeds with regard to which laundering may happen. (Kersten, 2002, p. 301). The reflection of this argument can be explicitly seen in the Council Directive on prevention of the financial system for the purpose of money laundering (the Council of the European Communities, 10 June 1991) where it provides that

since money laundering occurs not only in relation to the proceeds of drug-related offences but also in relation to the proceeds of other activities (such as organized crime and terrorism), the Member States should, within the meaning of their legislations, extend the effects of the Directive to include the proceeds of such activities, to the extent that they likely to result in laundering operations justifying sanctions on that basis.

This assumption is to some degree true. Regarding the evidence and studies on terrorist financing typologies mentioned above, it has been proved that terrorist groups, in some cases, are involved in criminal activities. However, complete reliance on the assumption to justify the inclusion of terrorism into the instruments related to organized crime (and as result, inclusion of terrorist financing into anti-money laundering measures) can be problematic for the following reasons.

First of all, it is wrong to presume that terrorism is a crime for the purpose of making money. Terrorists are generally motivated by ideology greater than personal impulses or material benefits (Conte, 2010, p. 10). So, their engagement in crime to fund their activities needs to

be considered as an instrumental purpose (Dandurand and Chin, 2004, p. 5). This feature distinguishes it from other criminal acts, especially organized crime, which are not “afforded any kind of excuse” as criminals seek personal or financial gains (Bantekas, 2003, p. 318). More importantly, terrorist funds can be acquired from legal sources. This considerably differentiates terrorist financing from organized criminal activities.

In addition to the distinct motivations, terrorists evaluate their conduct according to the standards and “codex of the ideology” that they follow (Conte, 2010, p. 11). So, even though an act is illegal and unjustifiable under the law of a state or international law, it might be legitimate and appropriate from the terrorists’ perspective. Emphasizing the significant consequence of this feature, some argue that “standard criminology” cannot apply to the case of terrorism since “the notion of deterrence is largely irrelevant, with the language of terrorists often entirely divorced from that of the normal criminal offender” (*ibid*).

Moreover, it is impossible to estimate to what extent and how “widespread” terrorists’ involvement in criminal (organized) activities is (Dandurand and Chin, 2004, p. 18). In 2003, a report indicated that 14 of the 36 groups found on the US State Department’s list of foreign terrorist groups were engaged in drug trafficking (US Congress, 2003). This is applied by the officials to justify that the war on terror and the war on drugs are and should be linked. Nevertheless, this conclusion was correctly criticized as “there are hundreds of terrorist organizations and drug trafficking groups, but it is usually the same dozen or so groups that get identified as being involved in both types of activities” (Dandurand and Chin, 2004, p. 12).

From an international law perspective, the inclusion of the concept of terrorism within the scope of international instruments relating to organized crime is also problematic. The problem lies in the nature and definition of terrorism. While there is not an agreement on a concrete definition of terrorism, and on the designation of groups as terrorist groups, certain characteristics of organized crime have been at least identified over the course of time (Obokata, 2010, p.14). With regard to this fact, the inclusion of terrorism in instruments related to organized crime has the potential to “divide parties to a treaty and make it unworkable” (Bantekas, 2003, p. 318). It might be the reason why the authors of the UN Convention Against Transnational Organized Crime (2000) avoided the inclusion of terrorist acts in the definition of organised crime in spite of acknowledging the involvement of terrorists in criminal activities (Bantekas, 2003).

By exemplifying the practices of few terrorist groups, it is also argued that “terrorist groups are now turning gradually into a big business ... and enjoy the unexpected fruits of their way of life” (Koh, 2006, p. 21). However, regarding the paucity of available data, it does not make sense to claim that such transformation is a typical or common pattern for all terrorist groups (Dandurand and Chin, 2004, p. 5). Moreover, from a criminal law perspective, if a terrorist group is transformed into some sort of a criminal organization, it can no longer be considered as a terrorist group.

To end this, it is worthwhile to note the result of the questionnaire administrated by the United Nations Office on Drug and Crime (September 2002) indicating that

Terrorist groups are frequently involved in other crime, particularly illegal drug trafficking, smuggling of migrants, falsification of illicit travel and identity documents, trafficking in firearms and other exploitation of illicit markets. However, the responses did not provide strong evidence of organizational links between terrorist groups and organized criminal

groups. There was no indication either that criminal groups were becoming more involved in terrorist acts. [10]

## **5.2 Terrorists' involvement in money laundering**

Unlike the first assumption which emphasises inaccurately and exaggeratedly on the illegal sources of terrorist funds, the second assumption focuses on the tools and methods which terrorists use to conceal the flow of their funds (the FATF, 2000-2001, p. 19). This assumption acknowledges that although terrorist funds can be derived from both legal and illegal sources, terrorists process their funds—"that is, move them from the source to where they will be used" – in the same way that non-terrorist criminals launder funds (the FATF, 2002-2003).

In other words, terrorists are involved in either money laundering or "reverse money laundering". If terrorists are involved with criminal activities, they need to use the same methods as criminals to conceal the origin of proceeds. If terrorist funds have a legitimate origin, then terrorists must engage in "reverse money laundering" (Cassella, 2003, p. 93), which is the application of the same methods and tools used by launderers to hide the destination of funds. In this regard, it has been noted that (Kochan, 2006, p. 245):

Terrorists use the same professional money network, they use the same convoluted transactions to hide the location of the money or where it's going. They can use the same clandestine shipment of cash to avoid paper-trails. They can engage in the same international shell games as they move money from this account to that, disguised as legitimate funds for some lawful purpose when it really is to finance new crime and new criminal enterprises ... The source of the money doesn't matter, it is the deadly purpose the money was intended to fund.

As a result of this analogy, it is concluded that there is significant room for anti-money laundering measures to deal with the phenomenon of terrorist financing. Therefore, terrorist financing is considered as a sub-category of money laundering, or a predicate crime to money laundering which potentially can be detected, investigated and prevented by the already existing measures (the FATF, 2000-2001, p. 28).

The logic of this assumption is not compelling for following reasons. Most of all, it is questioned whether money laundering counter-measures can be a 'one size fits all' solution for all crimes in which offenders may use the same money network as launders use to conceal the origin of their funds. The point is that these measures have been designed to prevent drug offences or offences whose purposes are the legitimatization and accumulation of huge amount of money generated from criminal activities (Stessens, 2000, p. 3). However, in regard to terrorist financing, none of these elements are necessarily involved.

With regard to the accumulation element, while the basic requirement in money laundering operations is to launder and accumulate a large amount of money, not only does terrorist financing end by distributing funds to terrorist cells, but also "terrorism can, and does, operate on a shoestring" (Lilley, 2006, p.129). This affects the volume of the money circulated in terrorist-related transactions. The 9/11 Commission Report provides an interesting insight into how easy it was for the 11 September hijackers to carry out their transactions. For example, it is reported that they mainly operated through wire transfers, using sums not exceeding \$10000 each time. The members of groups were on student visas and seemed to be receiving funds from their family or in the form of grants for their studies (Kean and Hamilton, 2004, p. 237). It is also emphasised that none of the hijackers' transactions were "extraordinary or remarkable".

In terms of the legitimization element, when terrorists are involved in crime to finance their activities, the quick response is that they are involved in money laundering. Of course, terrorists wish to hide the illegal sources of their funds (Dandurand and Chin, 2004, p. 14). However, regarding the fact that the purpose in terrorist financing is to make funds available to terrorists on the ground, not to integrate funds into financial systems (Lilley, 2006, p. 150), the question is whether the funds necessarily need to go through those complex money laundering stages and processes to become usable? The answer is positive if terrorists intend to invest proceeds to produce regular revenue.

Looking at the evidence, it is argued that while the “movement of terrorist-related funds and transactions” are not similar to usual transactions, it does not include complex stages and processes taken place in money laundering (Bantekas, 2003, p. 321). In addition, the result of a study on money laundering activities in the East and Southern African Anti-Money Laundering Group countries shows that although it was more likely that terrorist funds in this region originate from illegal sources rather than legal sources, no indication as to the link between money laundering activities and terrorist groups had been found (Goredema, 2003, p. 16).

What radically challenges the assumption of the inclusion of money laundering counter-measures to terrorist financing is the fact that proceeds derived from criminal activities are not the main source of funds for terrorists (Schmid *et al.*, 2000). As mentioned earlier, terrorist funds may have a legal origin. In such a case, if terrorists, for whatever reason, attempt to hide funds or their origin, it does not mean that they apply money laundering methods. Even if they apply similar tools and methods used by criminals to move and transfer their money, they do not necessarily engage in money laundering “in the normal sense of the word” (Dandurand and Chin, 2004, p. 18). In fact, unlike money laundering, where terrorist financing takes place there is no crime that precedes the endeavour to conceal the origin of funds from detection. There is, however, “criminal intent”, but it is not sufficient to conclude that the funds intended to be used for terrorist purposes is “the proceeds of that criminal intent” (Kersten, 2002, p. 306).

## **6. Conclusion**

Terrorism is not a crime for money; however, terrorists need resources to sustain their activities. This gives terrorist financing a multitudinous nature; that is, terrorism can be financed by any means, legal or illegal, and by anyone, terrorists or non-perpetrators. This feature also considerably differentiates terrorist financing from all those (organized) crime which ends in money laundering. The role and purposes of money laundering are to gain a legitimate appearance for the proceeds derived from illegal (often organized) activities, and to accumulate them into the legal economy. This necessitates that criminal activities from which proceeds are derived precede money laundering.

None of these elements are necessarily involved in the most terrorist financing cases as the financial flows in terrorist financing go in a different direction. Terrorism financing begins with the gathering funds and ends by distributing funds to terrorists. In such a process, there is no need for legitimization especially when the funds have a legal origin. Even if terrorist funds have an illegal background, money laundering cannot play a leading role because the purpose in terrorist financing is not the accumulation of funds in financial systems.

Similar to money laundering in which the attempt is to hide the origin of proceeds from detection, the effort in financing terrorism is to conceal the funds and their destination from

scrutiny. This similarity has been used to draw an analogy between money laundering and terrorist financing, justifying that terrorists and their supporters apply the same methods as those employed by launderers in organized crime to move terrorist funds (Cassella, 2003, p.92). Nonetheless, where terrorist financing takes place there is possibly no crime that relates to or is connected with the endeavour to conceal the movement of funds from detection. There is, of course, “criminal intent”, but it is not reasonable to consider the funds “as the proceeds of that criminal intent” (Kersten, 2002, p. 306). To sum up, what money laundering and terrorist financing share in common is money. However, while the money involved in the former has a dirty background, the funds engaged in the latter have a dangerous nature. This raises serious doubts as to the effectiveness of the inclusion of anti-money laundering system designed to trace, stop or restrict the ability of criminals to enjoy their ill-gotten money counter terrorist financing. The implications of such integration have not been discussed in this paper.

## Notes:

- 1-This question has been examined by Kersten (2002) from a “methodological” perspective.
- 2- The case of state-sponsored terrorism is beyond the purview of the present paper, as it is available to small number of terrorists groups, and it has been decreasing over time. In addition, it is highly unlikely that such cases can be argued and solved through the anti-money laundering and terrorist financing regime.
- 3- A very famous example of wealthy donors is Usma bin Laden who spent his estimated 20-30 million USD inheritance for Al Qaeda. Also, it is claimed that Shad Sanders, a rich Tamil-living in California, donated 4 million USD to the Tamil Tigers. See Peter L. Bergen (2006), *The Osama bin Laden I know : an oral history of al-Qaeda's leader*, Free Press, New York, p. 10. Also see Steve Kiser (2005), “Financing terror : an analysis and simulation for affecting Al Qaeda's financial infrastructure”, Originally presented as the authors Ph.D. dissertation, Rand Corporation,Pardee Rand Graduate School, p. 35.
- 4- *Zakat*, 2.5 percent of one’s accumulated wealth, is an example of donation which might be collected by some Islamic charity organizations that are in contact with terrorism.
- 5- Tamil diaspora is a noteworthy example of a diaspora “as a people with common national origins who lives outside a claimed or an independent country”. Sri Lankan Tamil diasporas across the world provide and transfer considerable amount of money and materials to the Tamils people in Sri Lanka. It is high likely that the funds provided go to the hand of the Liberation Tigers of Tamil Eelam group who has been designated as a terrorist group, and who fight for self-determination against the Sri Lankan Government.
- 6- Iran and some countries consider Hezbollah as a legitimate movement of national liberation fighting for the liberation of Israeli occupied territories through its military wing.
- 7- According to Article 2 (e) of the 2000 United Nations Convention against Transnational Organized Crime (Palermo Convention) “proceeds” mean “any property derived from or obtained, directly or indirectly, through the commission of an offence”.
- 8- “Organized criminal group” has been defined by the 2000 United Nations Convention against Transnational Organized Crime (Palermo Convention) as “a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more

serious crimes or offences established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit”.

9- The term “funds”, according to 1999 UN Terrorist Financing Convention, refers to “assets of every kind, whether tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such assets, including, but not limited to, bank credits, travellers cheques, bank cheques, money orders, shares, securities, bonds, drafts, letters of credit.”

10- In September 2003, pursuant to the UN General Assembly Resolution 58/136, the Terrorism Prevention Branch of the United Nations Office on Drugs and Crime sent a questionnaire to Member States of the United Nations regarding the “Nature and links between Terrorism and other Forms of Crime”. The above quote is the part of analysis of the replies to the questionnaire done by Dandurand and Chin, 2004, p. 32.

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#### **Acknowledgment:**

The author is a PhD student at School of Law, University of Canterbury, Christchurch, New Zealand. The author would like to express his sincere appreciation to Prof. Neil Boister for his enthusiastic guidance and insightful comments, and Dr. David Troughton for his support and editorial comments. The views expressed in this paper are those of the author alone. The author can be contact at: [hamedtofangsaz@gmail.com](mailto:hamedtofangsaz@gmail.com) or [hamed.tofangsaz@canterbury.pg.ac.nz](mailto:hamed.tofangsaz@canterbury.pg.ac.nz)